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AIDAC
SENSITIVE
SIPDIS
DEPT FOR S/SRAP STAFF, SCA/FO, SCA/RA, SCA/A, EEB/TPP/BTA
DEPT PASS AID/ASIA BUREAU
DEPT PASS USTR FOR DELANEY AND DEANGELIS
DEPT PASS TDA FOR STEIN AND GREENIP
DEPT PASS OPIC
DEPT PASS EXIM
TREASURY FOR MHIRSON, ABAUKOL, AWELLER, AND MNUGENT
COMMERCE FOR HAMROCK-MANN, DEES, AND FONOVICH

C O R R E C T E D C O P Y (ADDING CAPTION)

E.O.12958: N/A
TAGS: [EAIR](#) [EAID](#) [ETRD](#) [PGOV](#) [BEXP](#) [AF](#)
SUBJECT: Finance Minister Zakhilwal Interested in Improving Ariana Air Operations

REF: KABUL 3346

¶1. (U) Summary: Afghan Minister of Finance Zakhilwal and Coordinating Director for Development and Economic Assistance (CDDEA) Wayne reviewed the USAID-financed assessment's of state-owned Ariana Airlines October 21. The assessment notes improvements in human resource management and quality control are key to positioning Ariana for partial or full privatization. The Minister requested assistance in improving Ariana's profitability of the airline, specifically in financial management, outsourcing some services and marketing. The Asian Development Bank (ADB) will likely provide this support in the short term. In a separate discussion with Ambassador Wayne, Safi Airlines owner Abdul Rahim Safi disputed the Minister's claims that Ariana does not receive preferential treatment from the Afghan government. Safi also again requested U.S. Embassy support for EXIM financing for a Boeing purchase. End summary.

¶2. (SBU) Minister of Finance Zakhilwal met CDDEA Ambassador E. Anthony Wayne October 21 to discuss the USAID-financed financial/operational assessment of Ariana Airlines. The assessment's primary findings center on the need to address weak management and planning capacity (ref). The assessment identified the need for an increased focus on (1) safety and maintenance; (2) the severe lack of technical staff; and (3) the limited integration between safety, management, and financial systems.

¶3. (SBU) As next steps forward, the study recommends Ariana produce a business plan which outlines a strategic focus - international, domestic, and cargo services - and reviews business growth, profitability, occupancy, fleet management, safety and maintenance. The study also argues that the airline needs to define a fleet replacement policy, staffing and training requirements, and outsourcing strategies while adopting comprehensive integrated information management systems.

¶4. (SBU) Delving into the assessment, Zakhilwal stated it is unlikely the government will withdraw from managing the airline in the near future. The Finance Minister suggested pursuing near-term actions to improve operations in key areas of financial management, outsourcing certain services and marketing. He also suggested strengthening service standards by ensuring a plan is in place and competent people are assigned to implement it.

¶5. (SBU) Responding to Ambassador Wayne's question whether Ariana

benefits from preferential regulations and policies, the Minister said the airline is treated equally and is current on parking and landing fees. Zakhilwal indicated all Afghan airlines pay fewer taxes than they owe. He also said the Government's decision to give Ariana a sole-source award to transport pilgrims on the Hajj (21% of Ariana's income) was based on political considerations and because efforts to award the sensitive service on the basis of competitive bidding in the past had failed. [Note: in 2002 a group of pilgrims angry over their canceled flight to Mecca, killed the Transportation Minister and dumped his body out the back of a plane onto the Kabul Airport tarmac. End Note.]

¶6. (SBU) In a separate conversation on October 22, Ambassador Wayne spoke with the head of Safi Airlines, Abdul Rahim Safi. Safi disagreed with the Finance Minister's assessments and said he has repeatedly protested to the government that, in addition to enjoying a monopoly on ground services, Ariana receives a break on taxes and landing fees. Safi said he believes Finance Minister Zakhilwal has decided to ignore these pleas in favor of Ariana (and cited the use of Ariana for the Hajj as another example of preferential treatment). Safi noted he has also protested directly to President Karzai without result. The airline owner said his family has put over \$40 million into Safi Airways and is willing to continue to invest, but needs a level playing field. Safi added he has talked to EXIM Bank about financing for new Boeing aircraft, but he has not been operating long enough to meet the EXIM requirement of four years of balance sheets. He asked for U.S. Embassy help in engaging EXIM to find a way to obtain a loan or guarantees.

¶7. (SBU) Comment: The Asian Development Bank is likely to provide assistance to address some of the Minister's immediate concerns on improving profitability. USAID will also consider providing support for the improvement of Ariana's financial management, if the Afghan government demonstrates the political will and leadership to proceed with a concrete privatization plan for Ariana. End Comment.

EIKENBERRY